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CURRENT SUPPORT MEMORANDUM

A RUBLE-DOLLAR RATIO FOR TRADE BETWEEN EAST GERMANY AND THE USSR

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A RUBLE-DOLLAR RATIO FOR TRADE BETWEEN EAST GERMANY AND THE USSR

A study done for the East German Ministry of Foreign Trade, which shows the various amounts of exports, measured in internal East German prices, which the GDR had to ship in order to acquire 100 rubles of imports from various sections of the world, provides the basis for estimating the average ruble-dollar ratio characteristic of GDR-USSR commodity exchanges. From the viewpoint of East Germany (in terms of the major commodity imports of the GDR) the purchasing power of the dollar in the Free World is 4.55 times the purchasing power of the devisa ruble in the USSR. In other words the foreign trade prices in rubles of the commodities which the GDR imports from the USSR are 4.55 times the same prices as in the West in dollars, or the ruble-dollar ratio appropriate for these transactions is 4.55 rubles = one dollar. Thus this information roughly confirms, for the case of East German-Soviet trade, Bloc statements that intra-Bloc trade is conducted at world market prices.

Derivation

A study ^{1/}done for the East German Ministry of Foreign Trade indicates that in order to acquire 100 rubles of imports from the USSR (presumably in 1955) the GDR had to export 115.69 DME of goods;* to acquire 100 rubles of imports from the West, 131.61 DME of exports were required. The DME values are based on East German enterprise selling prices excluding tax.

The question is "How does the quantity of commodities in and the commodity composition of the 100 rubles of imports from the USSR compare with the quantity and commodity composition of the 100 rubles of imports from the West?" Since it is known that the commodity composition of East Germany's trade with the USSR is on the average the same as that with the West,* the important question becomes a comparison of the quantities of goods represented in the 100 rubles, or (the same thing) a comparison of Bloc foreign trade prices with Free World trade prices.

Assume: 1) that the commodity composition of GDR-USSR trade is identical with that of GDR-West trade;

2) that for the same goods the same price (in DME) prevails all over the GDR.

On the basis of these assumptions--which accord well with actuality--it follows that a basket of goods worth 100 rubles and representative of GDR imports from the USSR would have the same kind of contents as a basket of goods worth 100 rubles and representative of GDR imports from the West. The question is then "How

*The USSR Exports a wide variety of goods--industrial raw materials, food and manufactures--to East Germany and similarly imports from the GDR a wide variety of goods, mainly manufactured. Essentially the same composition characterizes East Germany's trade with the West.

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do the sizes of those baskets compare?" We know that the USSR basket commands 116 DME and that the Free World basket commands 132 DME. On the basis of the above assumptions, these DME units are identical. Thus it could be said that 100 rubles (USSR) = 116 units (or any numeraire) while 100 rubles (West) = 132 units, or that 100 rubles (West) commands 13 percent ⁽¹⁶⁾~~(16)~~ more goods--has 13 percent more purchasing power--than 100 rubles (USSR). In terms of the above analogy, the Free World basket has 13 percent more in it than does the USSR basket.

If 100 rubles (West) has 13 percent more purchasing power than 100 rubles (USSR), this implies that USSR export prices are 13 percent higher than Free World prices. Since 100 rubles = 132 DME, and \$100 = 528 DME,* then

$$\frac{100 \text{ R}}{\$100} = \frac{116}{528}$$

or

1 dollar = 4.55 rubles (or 13 percent more than the official rate of 1:4)

It is possible, of course, that GDR exports to the West are of somewhat higher quality and therefore higher price than exports to the USSR, and this fact compensates for the larger basket of goods which it gets from the West. This explanation seems much less likely than the fact that ruble prices of USSR exports to the GDR are 13 percent higher than are Free World prices, or that the 13 percent price differential is accounted for by slight differences in the commodity composition of East Germany's trade with the West as compared with the USSR. Because these differences are known to be slight it seems safe to conclude that trade between the USSR and the GDR is conducted approximately at the ruble equivalents of world market prices.

*This is equal to 100 rubles = 132 DME. The ruble equivalent of GDR imports from the West was obtained by the GDR Ministry of Trade by multiplying the dollar values by four.

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